



The Guaranty Gazette

Department of Veterans Affairs

Roanoke Regional Loan Center

Summer 2005

Welcome to the first quarterly issue of **The Guaranty Gazette**. This is being distributed by the US Department of Veterans Affairs, Roanoke Regional Loan Center.

We hope that this newsletter will serve as a useful tool for Lenders, REALTORS and other industry professionals.

Since this is a new endeavor we are certainly receptive to any comments, ideas or suggestions that our readers can contribute.

Sincerely

Gregory W. Shelton
Editor



*To care for him
who shall have borne the battle
and for his widow, and his orphan*

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David J. Davis
Loan Guaranty Officer
Roanoke Regional Loan Center

I started my career with the Department of Veterans Affairs in 1986 as a Loan Assistant at the VA Regional Office in Atlanta, Georgia. In January 1990, I was selected for a position on the Loan Management staff of the Loan Guaranty Service within VA Central Office. In November 1997, I became the first Loan Administration Officer in the newly designated Regional Loan Center, in Roanoke, VA. I held that position until October 2004, when I was selected to become the Loan Guaranty Officer in Roanoke.

I am a post-Vietnam era, US Army veteran. While in the Army, I served honorably as an Airborne Ranger in the 1st 75th Ranger Battalion. Soon after leaving the military, I enrolled at Mercer University, in Atlanta, and received a Bachelors of Business Administration, in December 1985. While in Atlanta, I met and married my wife Carolyn. We have been married for more than 22 years and have two boys; Neil, seventeen, and Adam, fourteen years old.



VA RAISES THE ROOF !!!

**Do you want to EXPAND
into new markets?**

Did you know that the maximum VA guaranteed loan without a downpayment is now \$359,650*? And that there is no loan limit with a qualifying downpayment? Take advantage of this training opportunity to learn more about VA loans and expand your share of this very important market!

*

Based on Freddie Mac single family mortgage loan limit. Limit is 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands.

**Satellite Broadcast
Real Estate Professional Outreach
September 21, 2005
(12:00 noon to 2:00 p.m EST)**

**For more information, visit our webpage at
<http://www.homeloans.va.gov/train.htm>
or contact your local VA Regional Loan Center**

The Veterans Benefits Act of 2004



1. PURPOSE: Public Law 108-454, the Veterans Benefits Act of 2004, was signed by the President on December 10, 2004. The following articles explain provisions affecting the Loan Guaranty Program such as the maximum loan limit, adjustable rate mortgages, hybrid loans and specially adapted housing. Related articles are located in this publication.

VA Loan Limits Increased

The Veterans Benefits Act of 2004, was signed by the President on December 10, 2004. One of the main purposes of the act was to change the maximum guaranty amount for VA loans. The law changes the maximum guaranty amount of \$60,000, for certain loans in excess of \$144,000, to an amount equal to 25 percent of the Freddie Mac conforming loan limit determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, as adjusted for the year involved. To illustrate, the maximum guaranty for 2005 would be \$89,912. This is 25 percent of the 2005 Freddie Mac conforming loan limit for a single family residence of \$359,650. Under Freddie Mac's charter, maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands. This higher amount would also apply to VA loans in these areas.

Hopefully this increase in the Guaranty Amount will help veterans in our jurisdiction, who live in areas where low or moderate cost housing is limited. Under this law the VA Loan Guaranty Service will not have to make a new determination each year about a possible increase in the maximum guaranty amount. The maximum guaranty amount is indexed to the Freddie Mac conforming loan limit.

New Adjustable Rate Mortgages For VA Loans

Adjustable Rate Mortgages for VA loans are back. The Veterans Benefits Act of 2004 gives VA authority to guarantee “traditional” Adjustable Rate Mortgages (ARMs) in a manner similar to that by which HUD insures adjustable rate mortgages under section 251 of the National Housing Act. VA previously had this authority but it expired September 30, 1995. The legislation provides authority through September 30, 2008. Key features of this program are:

Interest rate adjustments on an annual basis;

Annual interest rate adjustments limited to a maximum increase or decrease of 1 percentage point;

(3) Interest rate increases limited to a maximum of 5 percent points over the life of the loan;

(4) This type of ARM loan **MUST** be underwritten at 1 percentage point above the initial rate.

The law extends VA authority to guarantee hybrid ARM loans to September 30, 2008. The following are details on the Hybrid ARM loans.

Modification of Interest Rate Adjustment Requirements:

If the initial contract interest rate remains fixed for less than 5 years, the initial adjustment is limited to a maximum increase or decrease of 1 percentage point and the interest rate increase over the life of the loan is limited to 5 percentage points.

(b) If the initial contract interest rate remains fixed for 5 years or more, the initial adjustment will be limited to a maximum increase or decrease of 2 percentage points.

(c) In cases where the initial interest rate remains fixed for 5 years or more, the interest rate increase over the life of the loan will be limited to 6 percentage points.

“(d) After the initial interest rate adjustment, annual adjustments thereafter remain limited to 1 percentage point.

(2) *Effect on hybrid ARMS Guaranteed prior to Enactment of the Act.* The provisions of this Act will not affect existing hybrid ARMs. VA hybrid ARM loans made prior to this Act will be subject to the terms in effect at the time they were made. For example, a hybrid ARM with an initial fixed rate for 5 years or more made prior to this Act is limited to a 1 percentage point initial adjustment and a 5 percent limit over the life of the loan.

Change to Funding Fee Exemption.

The following borrowers were already exempt from paying the VA funding fee:

- Veterans receiving compensation for service-connected disabilities.
- Veterans who would be entitled to received compensation for service-connected disabilities if they did not receive retirement pay.
- Surviving spouses of veterans who died in service or from service-connected disabilities. (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan).

The law now expands the definition of veterans who are in receipt of compensation and thus entitled to a waiver of the VA funding fee to include:

Veterans who are rated eligible to receive compensation as a result of a pre-discharge disability examination and rating will now be considered as receiving compensation as of that date. This means veterans still on active duty awaiting discharge, but who wish to close on a loan before being released from the military, may be entitled to a waiver of the funding fee.

VA Lenders can verify the exempt status of veterans.

The U.S. Department of Veterans Affairs

Commemorating 75 Years of Service

How May We Serve You?

The Roanoke Regional Loan Center (RRLC) provides loan servicing and guaranty origination of VA home loans in the following states: Virginia, West Virginia, Kentucky, Maryland, and the District of Columbia.

Loan Guaranty's Mission is to help veterans and active duty personnel purchase and retain homes in recognition of their service to the Nation. All veterans and other participants in the program will be treated in a courteous, responsive, and timely manner. We will endeavor to operate in the most efficient manner possible to minimize costs and ensure the best use of the taxpayer's dollar.



Contacting the VA RLC

Ever wonder how to contact those elusive VA staff members at the Regional Loan Center? Where are they anyway? We are located right here in beautiful Roanoke, VA, the garden spot of the earth, and we are available to assist you with any questions or concerns.

Included in this copy of the Gazette are directions to obtain phone numbers, fax numbers and e-mail addresses for the RLC staff, you will need to read further to find them. Much of this information can be retrieved from the internet. So we will include some website information.

Like you, we are busy but if you can not get the information you need from your copy of **VA Pamphlet 26-7 The Lenders Handbook** or the websites, then we want you to contact us. One of the best ways to do this is by using one of our general mailboxes. These are monitored daily by a staff member who will respond directly or refer your e-mail to the appropriate person.

Contact information continued on Page 11.

Contact information continued.

Contact information and links to other websites can be found at our Roanoke Regional Office (RLC) website at <http://www.vba.va.gov/ro/Roanoke/rlc/>

Names, phone numbers, fax numbers, and e-mail addresses for Construction and Valuation can be found by accessing the Roanoke RLC Fee Appraisers Guide at on the RLC website at <http://www.vba.va.gov/ro/Roanoke/rlc/forms/APPRAISER%20GUIDE%202005.pdf>

VA Recruits New Appraisers

Lenders and Realtors may see new names and faces when working with VA fee appraisers. The VA has made an effort to recruit new appraisers nationwide. The goal is to increase the size of the VA panel by 40%. The Roanoke RLC has substantially achieved this goal and will have completed the expansion by August this year. It is hoped that increasing the size of the panel will improve appraisal timeliness and make us better able to cope with requests from appraisers who need to be off the panel due to illness or vacation. The new appraisers were selected based upon their education, experience and review of a sample appraisal. Their work will be closely monitored during a one year probationary period. We are confident the addition of the new personnel will enhance the program for the other participants and we ask you to welcome them to the VA panel.

Compromise Sales/Agreements

Did you know that a veteran who is in default may be able to sell his or her home even if the proceeds of the sale will not payoff the mortgage and expenses!

The VA may find it in the best interest of the government to compromise on the payoff amount instead of foreclosing on the property.

George McKenzie, Loan Servicing Officer explains as follows:

If a borrower is unable to sell his/her property for an amount that is greater than or equal to what he/she owes on his/her VA-guaranteed loan, including closing costs, and sales commissions, VA may pay the holder of the loan for the difference in order to allow the private sale to go through. The borrower can sell the property to a buyer who gets his/her own financing or to a buyer who wants to assume the loan.

In order to consider a property for a VA compromise sale, the realtor or the homeowner should contact the homeowner's holder/servicer and/or VA. A majority of servicers now have a Loss Mitigation Department that have been authorized by VA to process VA compromise sales. If the servicer is not on the list, VA will process the sale 'in house'. This list is updated periodically on our website. For more information and requirements on compromise sales, please visit our web address:

www.vba.va.gov/ro/roanoke/rlc. Click on the Servicers Page, then scroll to 'Information on VA compromise sales.' Remember, a commission can still be paid even when a veteran's property won't sell for enough to pay of the loan.

Myths and Legends

By Greg Shelton

Assistant Valuation Officer

Quite often I receive inquiries, feedback, or complaints from program participants regarding VA policy and procedures. Sometimes the person does not ask me about policies but begins by telling me what the policies are. Ah, wouldn't it be wonderful if what they told me was the truth, the whole truth and nothing but the truth! But, alas this is not always the case. One would think that the callers would be telling me how easy it should be, but normally it's the opposite. They think that things such as VA Minimum Property Requirements or MPRs are much more stringent than they really are. The reasons for some of the things I have heard are grounded in logic, while the reasons for the other are as elusive as Bigfoot. Here are a few myths and legends.

1. VA MPRs are very strict.

The VA's Minimum Property Requirements are basically that the house be Safe, Sound and Sanitary. We do not want a veteran buying a home that has conditions that are unsafe or in unsanitary condition. Also, first time buyers using their VA benefit may be acquiring the home and paying closing costs with most of their cash reserves and do not have funds to pay for items such as a new roof in the immediate future.

Some of the confusion on MPRs is that people confuse the Department of Housing and Urban Development (HUD) requirements with those for the VA. HUD is a great organization that offers tremendous services to the community. One element of their mission is to upgrade the housing stock of America. This is done by making sure that houses secured with HUD loans meet certain minimum requirements. This is a laudable mission, but it is not part of the VA's mission. We want to guarantee loans for veterans to obtain adequate housing that as I previously stated, is safe, sound and sanitary.

People have informed me that the VA will not accept two unit condominiums, multi-family homes, houses with less than three or even two bedrooms, houses without bedroom closets, houses without heat ducted to every room, or where you pass through one room to get to another. These items are matters of value. The VA fee appraiser should consider any effect the characteristics have on the value of the property; but they are not violations of VA MPRs that would preclude the property from being security for a VA loan. You can learn more about VA Minimum Property requirements by accessing Chapter 12 of the VA Pamphlet 26-7, VA Lenders Handbook at http://www.warms.vba.va.gov/pam26_7.html.

2. VA appraisers are instructed to hold down their Value Estimates.

Huh! Why would we do that? We administer a program that provides benefits to veterans. I cannot understand why someone would think that we feel that this is in the interest of the veterans we serve. We would not be properly providing this benefit by instructing appraisers to value properties at less than the fair market value. While we do not wish to guaranty a loan for more than the value of a property or assist anyone in taking advantage of veteran purchasers, we do want to help the veterans acquire the home of their choice.

What does the VA instruct appraisers to do? We instruct appraisers to follow state law, the Uniform Standards of Appraisal Practices and to appraise homes primarily based on the market approach to value.

The VA staff or the lender will issue a Notice of Value (NOV) after reviewing the appraisal. The NOV indicates the reasonable value of that property. For VA loan guaranty purposes “the reasonable value” of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions. VA considers reasonable value and market value to be synonymous. VA’s definition of market value is consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations.

Contrary to this myth, we do not instruct our appraisers to hold down value, and we have been explicit in our training that when establishing the fair market value, the appraiser needs to consider current market conditions. It is just as inappropriate to fail to make an

adequate time adjustment on an appraisal in a market with escalating values as it is to make one in a market where values are not appreciating.

3. Appraisals or a particular appraiser always come in below the sales price.

I “always” like this one. “Always” the individual “never” appraises a property at the selling price. Or worse yet, “every” VA appraisal is low. Well this is pretty easy to prove untrue. The fact is that most VA appraisals come in at or above the sales price. It is much easier to deal with facts than perception. There is a perception that a VA appraisal is likely to come in below the sales price. This is not true. Most likely if the parties involved in the transaction have made rational decisions in the listing and purchasing of the property there will not be a problem with the appraised value. Most VA appraisals come in at or above the sales price. In a market where values are rapidly escalating sometimes it is difficult to keep up with the changes in the market but VA appraisers are encouraged to use time adjustments when appropriate.

4. The VA does not care that people are discriminating against veterans.

We do care, but there are limits to the actions that we can take. We may not consider it admirable for sellers and real estate professionals to list homes with provisions for “No VA contracts” but it is not an illegal act. This is a free market economy and there is no law against discriminating against a particular type of financing. Let me assure you that we do care. We have tried to take action based upon the concerns of real estate professionals in our market areas. The VA nationwide has accepted procedures to notify program participants when the appraiser has indications that the value will come in below the sales price. This change was a direct result of the “Tidewater Experiment.” The Tidewater Experiment resulted from lenders and real estate professionals in the tidewater area approaching VA with concerns that there was a problem with values coming in below the sales prices. The Valuation Officer from the RLC met with representatives of the lending/real estate community and developed procedures to help prevent delays and problems on such cases. The new procedures outlines the responsibility of the appraiser to notify the contact person designated by the lender if it appears the value might be low. This gives the parties involved an

opportunity to provide evidence to support a value at or above the sales price. This was done in an effort to improve communications and to help streamline the reconsideration process. We know of no other loan guarantor or insurer that requires appraisers to do this.

The details of the procedure can be found in our Loan Guaranty Information (LGI) Letter 26-03-19 or by going to the RLC website at <http://www.vba.va.gov/ro/Roanoke/rlc/> and clicking on Information Letters.

If an appraisal does come in below the sales price any party of interest to the transaction may request a reconsideration of value. This is done by making a written request to the lender accompanied by any evidence that would support the request.

The VA recently changed the authority of the lenders Staff Appraisal Reviewers (SARs) regarding their ability to establish the reasonable value above the original appraisal amount. The SARs authority was changed from two percent of the value to five percent when they have justification to increase the value.

We have recently issued another LGI letter authorizing lenders to order appraisals on properties with no veteran purchaser under contract. This change occurred at the request of some real estate professionals who indicated that sellers may be less inclined to list houses with the “No VA Contracts” if the value is established before the listing. The details are outlined in LGI Letter 26-05-8 which also can be found on the RLC website.

We do not want the veterans or the government to lose money on a property that is not adequate security for the loan. We do want veterans to be able to compete in the market place while using a benefit they earned in as a result of service to their country.

Needless to say I could go on but that is enough for now. Please, remember that if you think something is an impediment to a veteran getting a VA loan and you can not find the reference in printed material or on the websites, contact us and confirm that it is not a myth or legend that stands in the way.

Roanoke Regional Office Vision Statement

Our vision is that we, the men and women of the Roanoke Regional Office, demonstrate genuine respect and caring for those we serve, for each other, and for ourselves, and provide superior service to each and every customer.

- **There is a sense of purpose throughout the workplace motivating us to provide quality service.**
- **We communicate clearly and effectively.**
- **We are empowered through training and authority to act in the best interest of our customers.**

**Want a copy of
The Guaranty Gazette
Sent directly to your computer?**

**Email a request to me at
greg.shelton@vba.va.gov**